AEGON Asset Management

Responsible investing
May 2024

AEGON **INSIGHTS**

Responsible investment opportunities in emerging market debt

Home to some 85% of the world's population, the opportunities for sustainable and development investment in emerging markets are growing. For those seeking to increase their investment exposure with one or more climate, sustainability or development goals that have the potential to drive positive change, there are opportunities to make targeted investments in emerging markets via corporate issuers. We believe there are a number of credit issuers within the emerging markets space that have the potential to offer more attractive yields than their similarly rated developed-market counterparts.

Although the exact investable universe from the perspective of an investor with specific climate, sustainability or development goals will vary, there is approximately $65 billion of technology, media and telecom bonds or $90 billion of sustainable instruments issued by corporate entities, which gives an indication of the subsets of opportunity for investment.[1]

India: Electricity generation

For instance, one the clearest examples is India's drive to increase the renewable share of that country's electricity-generating capacity to 50% by 2030 as a means of reducing its emissions intensity by 45% by 2030 from 2005 levels.[2] Electricity demand is expected to grow at a 6% compound annual growth rate through 2026 and the country faces a challenge in reducing its historical reliance on the burning of thermal fuels (approximately 76% of 2023-24 power generation) to meet consumption growth.[3]

Investment in India's renewable power capacity growth has been fast, supported by government subsidies and favorable tariff regimes targeting a near tripling of today's renewable capacity to 500 gigawatts by 2030. However, growth has also been reliant on support from the private sector, which has accounted for at least 90% of capacity expansion and is typically debt-funded.[4] We estimate the face value of eligible outstanding bonds to be approximately $8.5 billion, which we expect to continue increasing.[5]

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[1]Figures based on the JP Morgan Corporate EMBI Global Diversified Index, excluding China, Hong Kong, Korea and Singapore. Par values of outstanding bonds of at least 6 months to maturity and at least US $300 million outstanding. as of May 14, 2024.
[2]Kaushik Deb and Noyna Roy, "COP28: Assessing India's Progress against Climate Goals," *Center on Global Energy Policy at Columbia University | SIPA*, December 1, 2023.
[3]"India Sees Higher Peak in Electricity Demand as Power Consumption Surges," *Business Standard*, February 26, 2024.
[4]Vibhuti Garg, "Renewable Energy | Private Sector | View: Private Sector Driving Renewable Energy Wave in India," *The Economic Times*, April 9, 2022.
[5]Figures based on the JP Morgan Corporate EMBI Global Diversified Index. Par values of outstanding bonds of at least 6 months to maturity and at least US $300 million outstanding. as of May 14, 2024.

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The sector has not been immune from headline risk, but overall, the operating regime appears constructive for long-term investors and, from a governance perspective, some bond-issuing entities are well-anchored by ring-fenced structures, the presence of overseas wealth funds and energy major ownership stakes. This combination can provide relatively attractive short- and long-dated bonds for global investors.

Beyond this large economy, we also see opportunities to support renewables investment in emerging market European and Central American countries, where hydrological conditions are similarly supportive for investment in what is a less cyclical sector compared to traditional oil and gas entities.

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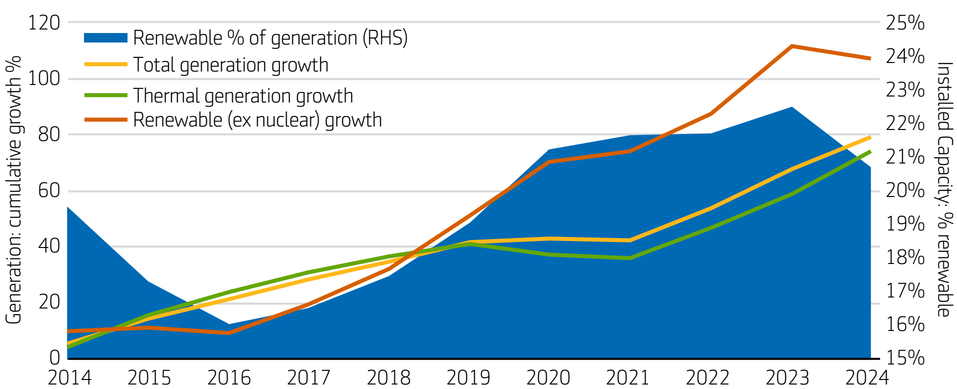
India power sector: Cumulative generation growth and renewable share of power generation



Source: Indian Ministry of Power. Renewables including large hydro. Year-ending March 31, 2024.

Africa and South Asia: Mobile network and data coverage

In frontier markets, particularly in African and South Asian countries, mobile network and data coverage still materially lags that of more developed counterparts. For instance, 4G coverage in Asia-Pacific countries is 96%, but in African countries is only 50%.[6] The contrasts are even more stark when the numbers are broken down between rural and urban areas, with African 4G rural coverage at 25% compared to 84% in urban areas.

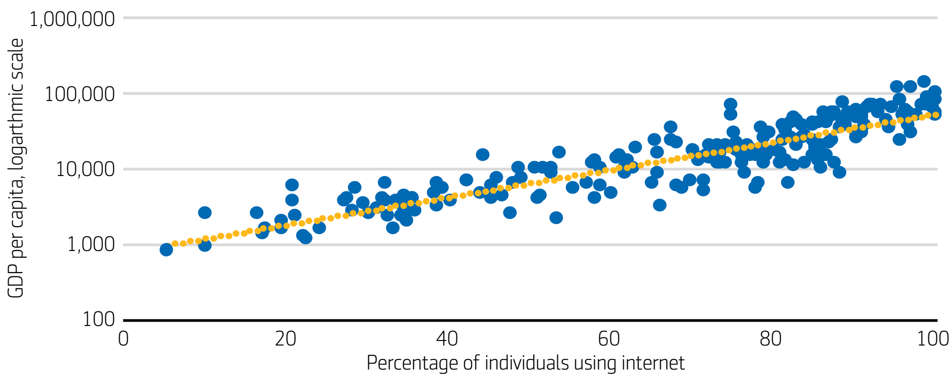
Here, there are opportunities for investors to benefit from more robust demand tailwinds relative to relatively saturated Western markets, while supporting telecommunications and infrastructure companies in their efforts to expand coverage, particularly in rural areas. Research has found strong links between mobile penetration rates and per capital GDP, with a 10% increase in mobile broadband penetration yielding a 2.5% to 2.8% increase in per capita GDP according to one study.[7] Not only could improved penetration of mobile services enhance productivity and contribute to the overall GDP of an economy, but it could also help connect remote populations to markets, promote citizens' access to social services and expand educational opportunities.

In addition, such infrastructure in select cases is increasingly powered by the deployment of cleaner power units (solar or hybrid), rather than by the diesel generators often used in rural areas due to poor grid reliability, so there can be both a

[6]"Facts and Figures 2022- Mobile Network Coverage," International Telecommunication Union web site. Accessed May 13, 2024.
[7]"Economic import of broadband in LDC, LLCs and SIDS: An empirical study," *International Telecommunication Union Publications*, 2019.

positive development and climate impact. We estimate the face value of eligible bonds to be approximately $10.8 billion and this is another sector we view as attractive relative to similar yielding but more cyclical commodity credits.[8]

Percentage of internet users worldwide and purchasing power parity GDP per capita, in US dollars



Source: World Bank Open Data. Data as of December 31, 2021.

Ukraine: A sustainable reconstruction

Prior to the Ukraine War, that country's steel-making facilities were in need of modernization in order for their exports to comply with European Union decarbonization regulations. For instance, in a recent interview, mining and metals company Metinvest's CEO estimated the future green transformation of the firm's predominantly Soviet-era assets will amount to $9 billion.[9]

This is just one industrial example, alongside broader investment needed in the railway network and power generation sectors, and highlights the key role debt investors will likely have to play in supporting sustainable initiatives across Ukraine during extensive reconstruction efforts, which are already estimated to cost $486 billion and rising.[10]

In contrast, investors may have some concerns surrounding the sustainability focus of conventional sovereign bonds where the use of proceeds can be much broader. Allaying some of this uneasiness is the growing issuance of social and sustainability labelled sovereign bonds with specified use of proceeds, but as of today the market is largely dominated by China, Korea, Chile and other highly rated sovereigns. For instance, to date, Egypt is the only country on the African continent that has issued such a use of proceeds bond. A targeted sector-specific focus in the corporate debt space—such as the aforementioned African operators— can provide investors with more tangible access to bonds aligned with their own climate, sustainability or development goals.

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[8]Figures based on the JP Morgan Corporate EMBI Global Diversified Index, with addition of VEON bonds. Par values of outstanding bonds of at least 6 months to maturity and at least US$300mm outstanding. as of May 14, 2024.
[9]Forbes Ukraine Interview with Metinvest CEO Yuriy Ryzhen, Metinvest web site, December 20, 2023.
[10]"Updated Ukraine Recovery and Reconstruction Needs Assessment Released," European Commission press release, February 15, 2024.

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